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**An Audit Report on the Texas Education Agency's  
Administration of the Instructional  
Facilities Allotment Program**

September 13, 2000

Members of the Legislative Audit Committee:

The Instructional Facilities Allotment (IFA) Program is achieving its objectives to assist lower-wealth and high-growth school districts. Of the 272 school districts participating from the start of the IFA Program through fiscal year 2000, 90.4 percent had a lower wealth per student than the statewide average district wealth, and 52.2 percent experienced more than 10 percent growth in student population between 1994 and 1999. By the end of fiscal year 2001, 312 school districts throughout Texas will have leveraged IFA Program and local funding to construct approximately \$5.6 billion of instructional facilities. (See attachment.)

Overall, the Texas Education Agency (Agency) effectively administers the IFA Program. However, the Agency can enhance its administration by improving its monitoring of the school districts, updating its IFA Program policies and procedures, and updating its information systems.

These improvements will help the Agency continue to ensure that lower-wealth and high-growth districts receive and spend IFA Program funds appropriately. Reviews at 16 independent school districts show that these districts generally manage their IFA Program funds in compliance with applicable laws and regulations, although there is room for improvement.

In a letter to the Agency, we provided detailed information on our recommendations. Management's response indicates that the Agency is in general agreement.

We appreciate the Agency's and the districts' cooperation. If you have questions, please call Dick Dinan, Audit Manager, at (512) 936-9500.

Sincerely,

Lawrence F. Alwin, CPA

Attachment

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cc: Mr. Chase Untermeyer, Chairman, State Board of Education  
Members of the State Board of Education  
Mr. Jim Nelson, Commissioner of Education, Texas Education Agency

SAO Report No. 01-002

## The Instructional Facilities Allotment Program Is Achieving Its Objectives

School districts with lower wealth and high growth in student enrollment are applying to and participating in the Instructional Facilities Allotment (IFA) Program (see text box).

Of the 272 school districts participating from the start of the IFA Program through fiscal year 2000, 90.4 percent had a lower wealth per student than the statewide average district wealth, and 52.2 percent experienced more than 10 percent growth in student population between 1994 and 1999.

The IFA Program equalizes local tax effort for instructional facilities debt service so that lower wealth districts receive more IFA state aid than higher wealth districts. School districts are guaranteed \$35 per student in state and local funds for each cent of tax effort. The total amount of assistance a district can receive over a biennium is limited to

the lesser of the actual debt service payment or \$250 multiplied by the number of students in average daily attendance (see Figure 1 on page 7). Because state funds help pay debt service, the districts are able to levy fewer taxes than they would if there were no state assistance.

Districts participating in the IFA Program have lower average wealth per student, higher average debt service tax rates, and lower average maintenance and operations tax rates than the state average. Table 1 on page 6 compares districts participating in the IFA Program with all districts, high growth districts, and lower wealth districts. Table 2 on page 6 shows the growth and wealth of IFA Program participants.

Seventy-five districts with wealth and growth levels similar to those of IFA Program participants have not previously applied for the IFA program. During a phone survey with ten of these districts, the reasons given for not participating were as follows:

- Lack of voter support
- Lack of knowledge about the program
- Current involvement in the planning phase of a bond election

### What is the IFA Program?

The IFA Program helps school districts make payments on qualifying bonds and lease-purchase agreements. Senate Bill 4 (76th Legislature) gives priority to school districts with lower property wealth, high student population growth, and local citizens' willingness to pay for instructional facilities. The IFA Program was appropriated \$100 million for each year of the 1998-1999 biennium and \$396 million for the 2000-2001 biennium.

To receive assistance, school districts apply to the Texas Education Agency (Agency). The Agency processes the applications, ranks the applicants by property wealth, and awards allotments to eligible districts. The Agency also determines and awards the State's share of the long-term debt service for districts that were awarded allotments in previous years.

Five of the ten districts surveyed have applied to participate in the next IFA Program funding cycle (September 2000).

The maps (Figures 2, 3, and 4) on pages 8, 9, and 10 illustrate the taxable wealth level, student enrollment growth, and geographic diversity of participating and non-participating school districts (with wealth and growth levels similar to those of IFA Program participants that have not applied for the IFA Program).

Section 2:

## **School Districts Throughout Texas Have Leveraged State and Local Funding to Construct Instructional Facilities Worth \$5.6 Billion**

From the beginning of the IFA Program in fiscal year 1998 through fiscal year 2001, approximately 312 districts have or will have borrowed approximately \$5.6 billion as a result of the IFA Program. This includes an estimate of 90 school districts that will be funded in Round 4 (September 2000) and are awaiting approval.

This \$5.6 billion in borrowed funds does not include the interest the districts will pay during the terms of their indebtedness (8 to 30 years). The Agency does not have the resources to determine the total amount of principal and interest the State will pay over the life of all IFA Program-related debt. This is mostly due to changes that may occur over the term of the bond, such as refunding or refinancing and increase in property values.

During the same four years (fiscal years 1998 through 2001), the Agency and the districts will have spent approximately \$1 billion on IFA Program-related principal and interest payments. Of that \$1 billion, the State's portion will be approximately \$580 million (of \$596 million appropriated to the Agency for the IFA Program).

On average for the IFA Program, the State spends 58 cents for every 42 cents that local districts raise through taxes. The Agency expects the State portion of this ratio to decline over the term of district indebtedness (8 to 30 years) because property tax values that are increasing for many districts could lower the amount of their annual state allotments.

In the fall of 2000, the Agency plans to conduct a survey to determine how many school districts plan to issue debt for facility construction. The Agency would also like to identify construction facility needs, which would give the Agency and the Legislature an idea of the demand for IFA Program funds.

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## The Agency and the Districts Could Enhance Their Administration of the IFA Program

Overall, the Agency effectively administers the IFA Program. However, the Agency could enhance its administration of the IFA Program by taking the following steps:

- Improve the monitoring of school districts' compliance with the IFA Program.
- Update and adhere to the IFA Program policies and procedures manual.
- Update IFA Program-related automated information systems, and improve the business processes surrounding these computer systems.

These improvements will help the Agency ensure that eligible districts continue to receive and spend IFA Program funds appropriately.

Reviews of 16 independent school districts show that in general, these districts manage their IFA Program funds in compliance with applicable laws and regulations. However, we noticed areas where there are opportunities for improvements. The Agency could assist the districts with the following steps:

- Develop written policies and procedures for contract and construction monitoring.
- Implement and monitor an evaluation process for contract performance.
- Develop clear definitions of contractor selection criteria (for example, vendor reputation, quality of goods and services) and consistently document their use in the contractor selection processes.
- Develop contingency plans to ensure completion of construction projects.
- Develop a long-term facility planning process to better identify facility needs. Only 9 of the 16 districts we reviewed had long-term facility planning documents. The Agency may want to emphasize to the districts that it provides information on issues such as long range financial planning for facility improvement and master planning procedures in the Facilities Management Module of its *Financial Accountability System Resource Guide*.

## Objective, Scope, and Methodology

### Objective

The objective of this audit was to review the Agency's management controls for the administration of the IFA Program. Specifically, we evaluated the Agency's process for assessing facility needs and allocating resources among districts, and we determined whether districts participating in the IFA Program have appropriately managed funds and complied with IFA Program requirements.

### Scope

We reviewed the Agency's processes for allocating funds among school districts. We reviewed a sample of participating in the program to see if they appropriately manage IFA Program funds and comply with IFA Program requirements. We reviewed the following independent school districts: Alief, Brownsville, Donna, Farmersville, Killeen, Lake Dallas, Laredo, Magnolia, Mercedes, Princeton, Robinson, San Benito Consolidated, San Elizario, Socorro, Somerset, and South San Antonio.

### Methodology

We conducted fieldwork from May through July 2000. This audit was conducted in accordance with generally accepted government auditing standards.

Information collected included the following:

- Interviews with Agency and school district staff members
- Property tax data from the Comptroller of Public Accounts
- Documentary evidence including:
  - IFA Program policies and procedures manual
  - Construction contracts from districts
  - Districts IFA Program application

Procedures and tests conducted:

Analysis of the Agency's IFA Program files and program administration including eligibility of program participants, compliance with statutes and rules, and accuracy of electronic data files.

Analysis techniques used:

Use of Geographical Information System software to map the location of IFA Program participants.

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Criteria used:

- IFA Program Request for Application
- Policies and procedures from State Auditor's Office Methodology Manual
- Texas Education Code, Chapters 42, 44, and 46
- Texas Government Code, Section 2254.004
- Vernon's Civil Statutes, Article 717a
- Texas Administrative Code, Chapter 61
- Senate Bill 4, 76th Legislature
- General Appropriations Act, 75th and 76th Legislatures
- Texas Education Agency *Financial Accountability System Resource Guide, Version 6.0*

**Other Information**

The following members of the State Auditor's Office staff performed the audit work:

- Tim Dasso, ARM (Project Manager)
- Ed Santiago (Assistant Project Manager)
- Virginia Carmichael, Ph.D., MPAff
- Paige Buechley, MBA, MPAff
- Robin Smith, CPA
- Angela Dimmitt, CPA
- Michael Reed, MPA
- John Quintanilla MBA
- Bruce Truitt, MPAff (Quality Control Reviewer)
- Dick Dinan, CPA (Audit Manager)
- Deborah Kerr, Ph.D. (Audit Director)

Table 1

Comparison of School Districts' 1999 Tax Rates, Debt, and Wealth				
Category	IFA Program Participants	All Districts <sup>a</sup>	All High-Growth Districts <sup>b</sup>	All Lower-Wealth Districts <sup>c</sup>
Interest and Sinking	\$0.26	\$0.15	\$0.22	\$0.25
Maintenance and Operation	\$1.27	\$1.30	\$1.26	\$1.22
Total Average Tax Rate	\$1.53	\$1.45	\$1.49	\$1.47
Debt per Capita	\$1,058.00	\$921.00	\$1,215.00	\$492.00
Debt per Student (ADA)	\$5,059.00	\$4,596.00	\$5,982.00	\$2,167.00
Debt Service per Student (ADA)	\$450.00	\$490.00	\$560.00	\$249.00
Wealth per Student (ADA)	\$153,461.00	\$206,571.00	\$210,781.00	\$53,825.00
<sup>a</sup> Data available for 1,036 of 1,042 districts				
<sup>b</sup> All districts (IFA and non-IFA) with more than 30 percent growth in student enrollment between 1994 and 1999				
<sup>c</sup> All districts (IFA and non-IFA) for which wealth per Average Daily Attendance (ADA) in 1999 was in the lowest 10 percent of all districts' wealth per ADA				

Source: Bond Review Board (1999 data)

Table 2

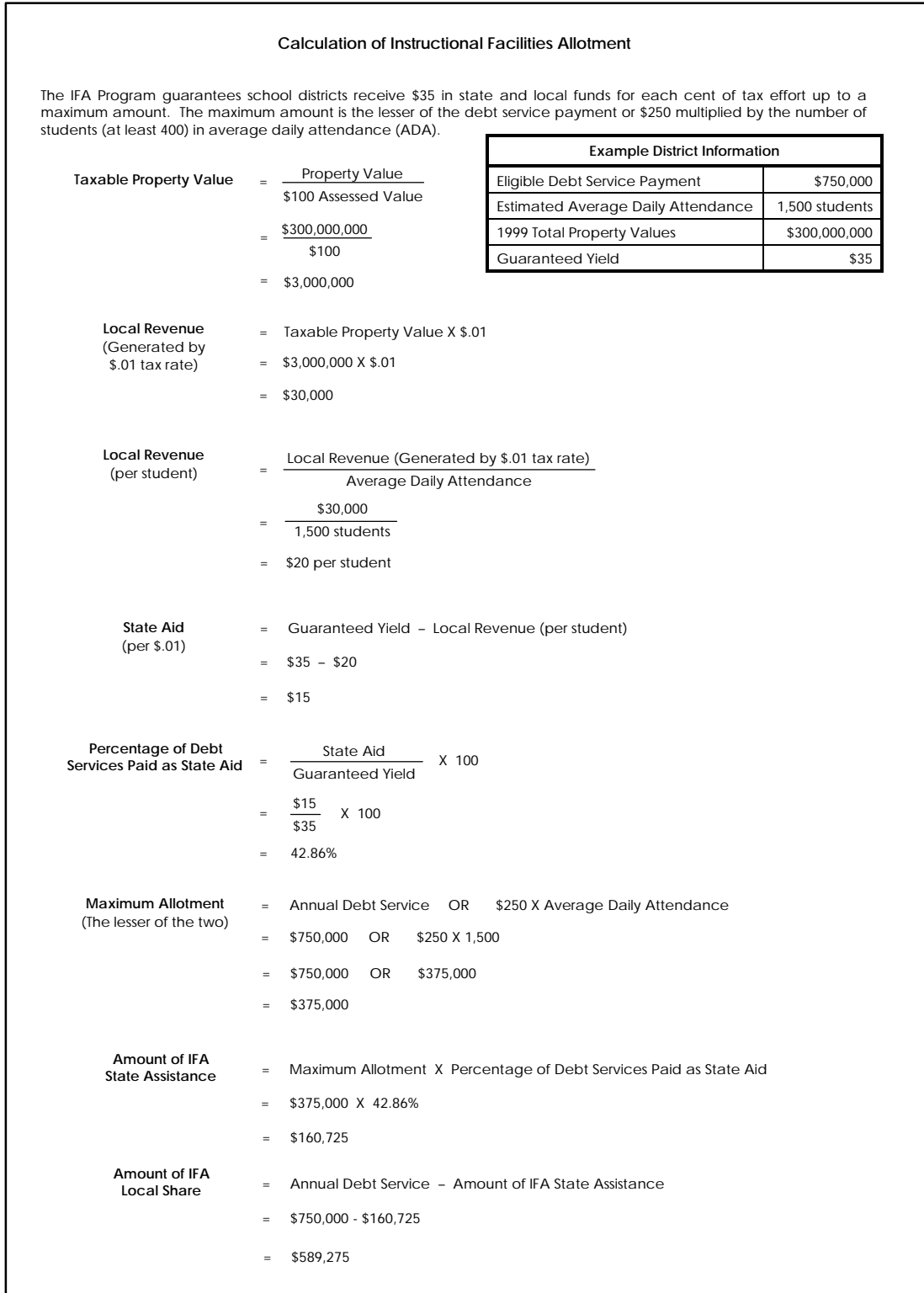
Growth and Wealth of School Districts in the IFA Program		
Category	Number of Districts	Percentage of All IFA Program Participants
<b>Growth in Student Population Between 1994 and 1999</b>		
Less Than 10 percent	130	47.8%
10 to 15 percent	40	14.7%
15 to 30 percent	55	20.2%
More Than 30 percent	47	17.3%
<b>Total</b>	<b>272</b>	<b>100.0%</b>
<b>1999 Wealth per Student (ADA)</b>		
Less Than \$206,571 <sup>a</sup> per ADA	246	90.4%
More Than \$206,571 <sup>a</sup> per ADA	26	9.6%
<b>Total</b>	<b>272</b>	<b>100.0%</b>
<sup>a</sup> Statewide average wealth per ADA (see Table 1)		

Source: Texas Education Agency (July 2000)

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Figure 1





Please click on one of the following figures to view the corresponding map.

**Figure 2 - Ninety Percent of Participating Districts Have a Lower Wealth Per Student Than the Average Texas District**

**Figure 3 - Between 1994 and 1999, 52 Percent of Participating Districts Grew 10 Percent More in Student Population**

**Figure 4 - Seventy-Five Districts With Wealth and Growth Levels Similar to IFA Program Participants Have Not Previously Applied for the Program**